

Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 FEA-01 AGR-10 CEA-01 CIAE-00

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SUBJ: THE INVESTMENT CLIMATE IN MEXICO

REF: STATE 165596

1. MEXICO IS A MAJOR CAPITAL-IMPORTING COUNTRY AND IS
LIKELY TO CONTINUE SO FOR AT LEAST THREE OR FOUR YEARS
AND PROBABLY LONGER IN SPITE OF ITS RECENTLY DISCOVERED
OIL. HOWEVER, MEXICO'S DEPENDENCE ON FOREIGN DIRECT
INVESTMENT HAS DIMINISHED RELATIVE TO OTHER SOURCES OF
FOREIGN CAPITAL. OVER THE PAST TWENTY YEARS THE PROPORTION
OF DIRECT FOREIGN INVESTMENT INFLOWS TO TOTAL LONG-TERM
CAPITAL INFLOWS HAS FALLEN FROM ROUGHLY 80 PERCENT TO 11 PERCENT
(IN 174). THIS REFLECTS THE GREATER ACCESS TO OTHER FORMS OF CAPITAL
THAT MEXICO HAS ACHIEVED IN THE INTERNATIONAL CAPITAL
MARKETS. PERHAPS BECAUSE OF THIS, MEXICO HAS TIGHTENED
ITS RULES ON FOREIGN DIRECT INVESTMENT, MOST RECENTLY IN
1973 WITH THE PASSAGE OF A MAJOR FOREIGN INVESTMENT LAW.
THE LAW REQUIRES THAT ALL FOREIGN INVESTMENTS IN ENTERPRISES
IN MEXICO BE REGISTERED AND ESTABLISHED A MINISTERIAL LEVEL
COMMISSION TO REVIEW AND ACT UPON FOREIGN INVESTMENT
PROPOSALS.

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2. THERE IS STILL UNCERTAINTY AS TO THE POLICIES BEING

FOLLOWED BY THE COMMISSION; HOWEVER, INVESTMENTS IN WHICH THERE IS MAJORITY OWNERSHIP BY MEXICANS, AND/OR WHICH

MEET MAJOR GOVERNMENT ECONOMIC OBJECTIVES SUCH AS IMPORT SUBSTITUTION, EXPORT PROMOTION AND DEVELOPMENT OF BACKWARD AREAS, ARE LIKELY TO OBTAIN APPROVAL. FOREIGN INVESTMENT IS NOT PERMITTED IN A NUMBER OF INDUSTRIES INCLUDING PETROLEUM, BASIC PETRO-CHEMICALS, ELECTRICAL POWER, RAILROADS, TELECOMMUNICATIONS, URBAN AND INTER-URBAN MOTOR TRANSPORT, DOMESTIC AIR AND MARITIME TRANSPORT, FORESTRY AND GAS DISTRIBUTION.

3. MEXICO'S ECONOMIC PERFORMANCE OVER THE PAST TWENTY OR MORE YEARS HAS BEEN ONE OF THE MOST OUTSTANDING IN THE DEVELOPING WORLD AND FOREIGN INVESTMENTS HAVE GENERALLY DONE VERY WELL. IT IS PRESENTLY GOING THROUGH A DIFFICULT PERIOD WHICH IS DUE IN PART TO THE RECESSION IN THE INDUSTRIALIZED WORLD. INFLATION REMAINS A SERIOUS PROBLEM, THE ECONOMIC GROWTH RATE IS DECLINING AND THE TRADE DEFICIT IS GROWING. MEXICO HAS FOR MANY YEARS MAINTAINED A PROTECTIONIST TRADE POLICY USING IMPORT PERMITS, QUOTAS AND TARIFFS, AND HAS EMPHASIZED IMPORT SUBSTITUTION. SEVERAL YEARS AGO, IT BEGAN TO PROMOTE EXPORTS, PARTICULARLY OF MANUFACTURED PRODUCTS. EFFORTS IN ALL THESE FIELDS ARE NOW BEING INTENSIFIED, THEREBY INDUCING SUPPLIERS, WHERE POSSIBLE, TO MEET LOCAL DEMAND FROM WITHIN THE COUNTRY. WHILE INTERNATIONAL TRADE IS CONTROLLED CLOSELY, THERE ARE NO RESTRICTIONS ON INVISIBLE TRANSACTIONS. THE GOVERNMENT IS DEEPLY INVOLVED IN THE ECONOMY NOT ONLY AS A REGULATOR, BUT ALSO THROUGH ITS 100 PERCENT OWNED COMPANIES AND EQUITY INTEREST IN MANY OTHER ENTERPRISES INCLUDING SOME IN WHICH FOREIGNERS ARE INVOLVED.

4. OPIC DOES NOT WRITE POLICIES FOR MEXICO. THE GOVERNMENT OF MEXICO IS A FIRM SUPPORTER OF THE CALVO DOCTRINE WHICH STATES, IN EFFECT, THAT FOREIGN INVESTORS MAY NOT LOOK TO THEIR HOME COUNTRIES FOR ASSISTANCE IN INVESTMENT DISPUTES. ON THE OTHER HAND, MEXICO'S RECORD TOWARD FOREIGN INVESTMENT OVER THE PAST 35 YEARS HAS BEEN VERY GOOD. THE US. ACCOUNTS FOR THREE-QUARTERS OF ALL FOREIGN DIRECT INVESTMENT IN MEXICO.

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5. MEXICO REQUIRES THAT ALL TECHNOLOGY, ROYALTY AND PATENT CONTRACTS BE REGISTERED SUBJECT TO APPROVAL AND WITH A DURATION NOT TO EXCEED 10 YEARS. THERE IS ALSO A MANDATORY PROFIT-SHARING LAW.

6. THE BANK OF MEXICO ESTIMATES FOREIGN DIRECT INVESTMENT IN MEXICO AT END -1973, AT \$3.6 BILLION. THE US. ACCOUNTED

FOR 76 PERCENT OF THIS. THE THREE NEXT LARGEST INVESTORS WERE GERMANY, ENGLAND AND SWITZERLAND. (NOTE: BANK OF MEXICO COUNTS AS FOREIGN DIRECT INVESTMENT ALL FOREIGN PARTICIPATIONS IN EXCESS OF 5 PERCENT OF EQUITY.) WE WOULD ESTIMATE FOREIGN DIRECT INVESTMENT IN MEXICO, AS DEFINED BY BANK OF MEXICO, AT END-1974 AT APPROXIMATELY \$4.1 BILLION

7. MEXICO DOES NOT HAVE DATA ON INVESTMENTS OF MEXICANS ABROAD.
BRANDIN

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